

**Minutes
State Board of Investment
December 6, 2012**

The State Board of Investment (SBI) met at 10:00 A.M. Tuesday, December 6, 2012 in Room 123, State Capitol, St. Paul, Minnesota. Governor Mark Dayton, State Auditor Rebecca Otto, Secretary of State Mark Ritchie and Attorney General Lori Swanson were present. The minutes of the September 12, 2012 meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and he reported that the Combined Funds had outperformed its Composite Index over the ten year period ending September 30, 2012 (Combined Funds 8.7% vs. Composite 8.6%) and had provided a real rate of return over the latest 20 year period (Combined Funds 8.3% vs. CPI 2.5%).

Mr. Bicker reported that the Combined Funds' assets increased 3.4% for the quarter ending September 30, 2012 due to positive market performance. He said that the asset mix is essentially on target, and he stated that the Combined Funds outperformed its Composite Index for the quarter (Combined Funds 4.5% vs. Composite 4.3%) and for the year (Combined Funds 18.1% vs. Composite 17.7%).

Mr. Bicker reported that the domestic stock manager group matched its target for the quarter (Domestic Stocks 6.2% vs. Domestic Equity Asset Class Target 6.2%) and outperformed for the year (Domestic Stock 30.3% vs. Domestic Equity Asset Class Target 30.2%). He said the international stock manager group outperformed for the quarter (International Stock 7.7% vs. International Equity Asset Class Target 7.4%) and for the year (International Stock 14.9% vs. International Equity Asset Class Target 14.5%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 2.4% vs. Fixed Income Asset Class Target 1.6%) and for the year (Bonds 7.5% vs. Fixed Income Asset Class Target 5.2%). He stated that the alternative investments returned 0.3% for the quarter and 6.1% for the year. He concluded his report with the comment that, as of September 30, 2012, the SBI was responsible for over \$62 billion in assets.

Mr. Bicker referred members to Tab B of the meeting materials for an update on the budget and travel for the quarter. He reported that the Legislative Auditor is working on the financial audit of the SBI's operations for FY12 and that members will receive a copy of their report when it becomes available. He added that the draft of the SBI's FY12 Annual Report will be distributed by early December and he noted the tentative meeting dates for calendar year 2013.

Mr. Bicker stated that TIAA-CREF, the manager of the state's College Savings Plan, has requested a couple changes in the Plan's investment options and approval of a small management fee reduction. He said that staff concurs with these changes. Mr. Ritchie moved approval of staff's recommendation, as stated in Tab B of the meeting materials, which reads: **"Staff requests that the Board approve the recommendations from TIAA-CREF to enhance the**

state's College Savings Plan. These changes are: Replace the Large-Cap Growth Index Fund, the Large-Cap Value Index Fund and the Small Cap Blend Index Fund in the Managed Allocation Option, the 100% Equity Option and the Balanced Option with an all-cap Equity Index Fund. Add a separate International Equity Index Option. Lower program management fees by five basis points." The motion passed. Mr. Bicker reported that updated information on Sudan and Iran is also included in Tab B.

Mr. Bicker asked Ms. Eller, Deputy Attorney General for an update on litigation. Ms. Eller reported that the Minnesota Court of Appeals had affirmed the District Court's dismissal of the lawsuit. She noted that the time for appeal had not yet expired.

Mr. Bicker referred members to Tab C of the meeting materials and briefly reviewed the process used by the Master Custodian Review Committee to evaluate responses to the SBI's request for proposal for master custody services. He stated that the Committee is recommending that the SBI renew its contract with State Street Bank and Trust. Ms. Otto moved approval of the recommendation as stated in Tab C of the meeting materials, which reads: **"Based on the results of the RFP, the Committee recommends that the Board authorize the Executive Director, with the Assistance of SBI counsel, to negotiate and execute a contract with State Street Bank and Trust Company, Boston, MA, for Master Custodial services for a five year period ending April 30, 2018.**

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligation on the State Board of Investment and neither the State of Minnesota, the State Board of Investment or its Executive Director have any liability for reliance by State Street Bank and Trust Company upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on State Street Bank and Trust or reduction or termination of the commitment." The motion passed.

Mr. Bailey referred members to Tab D of the meeting materials and noted that no recommendations were being made at this time regarding the stock and bond managers. He reported that the IAC had spent some time discussing the potential use of swaps as an additional investment strategy. In response to a question from Governor Dayton, Mr. Bicker stated that legislation would be needed if the Board chose to proceed and he said that staff could prepare legislative language for the Board to consider at its March 2013 meeting. In response to a request from Mr. Ritchie, Mr. Bicker stated that staff would provide additional background information to the Board regarding swap transactions.

Mr. Bailey referred members to Tab E of the meeting materials and briefly reviewed the new investments with two existing private equity managers, Warburg Pincus and Chicago Growth Partners, one existing resource manager, EnCap Investments and one new private equity manager, Public Pension Capital. He highlighted a few of the more investor friendly terms available with Public Pension Capital. Mr. Ritchie commented that he is appreciative that staff is watching for new opportunities in the alternative area. In response to questions from Ms. Swanson, Mr. Bicker stated that the State of Oregon had already committed and that the

recommendation stipulates a limitation on the length of time to fund raise for the fund. Ms. Otto moved approval of the four recommendations, as stated in Tab F of the meeting materials, which reads: **"The Investment Advisory Council recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$200 million, or 20% of Warburg Pincus XI, whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory**

Council, the State Board of Investment nor its Executive Director have any liability for reliance by Warburg Pincus upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Warburg Pincus or reduction or termination of the commitment.

The Investment Advisory Council recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$75 million, or 20% of Chicago Growth III, whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Chicago Growth upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Chicago Growth or reduction or termination of the commitment.

The Investment Advisory Council recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million, or 20% of EnCap IX, whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by EnCap upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on EnCap or reduction or termination of the commitment.

The Investment Advisory Council recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million, or 20% of the PPC Fund, whichever is less. Additionally, the commitment is contingent on PPC obtaining at least \$500 million in signed and finalized Limited Partner commitments to the Fund from at least four (4) other Limited Partner investors in the Fund by June 30, 2013. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and

neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by PPC upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on PPC or reduction or termination of the commitment.” The motion passed.
The meeting adjourned at 11:45 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Howard Bicker", written in a cursive style.

Howard Bicker
Executive Director